USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 1/28/2014

GAIN Report Number: ID1403

Indonesia

Oilseeds and Products Update

Indonesia Oilseed and Products Update 2014

Approved By:
Ali Abdi
Prepared By:
R Thomson Wright/I Edy Wiyono

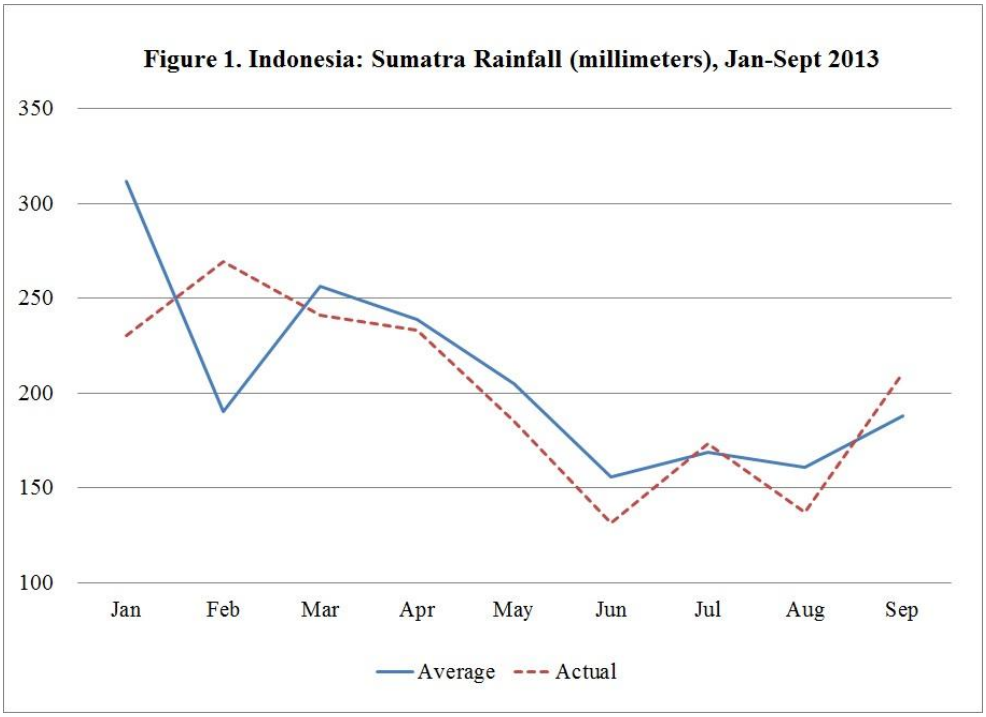
Report Highlights:
Post estimates for marketing year (MY) 2012/13 Indonesian crude palm oil (CPO) are stable at 28.5 million metric tons (MMT). Robust growth of harvested area, despite reports of low yields due to weather conditions defavoring insect pollinators, is driving production increases. Indonesia's new biodiesel mandatory program is driving increased domestic consumption, lower ending stocks, and slower export growth of palm oil.

Indonesian soybean production fell from 620,000 MT in MY 2011/2012 to 600,000 MT in MY 2012/2013. Poor weather, challenging agronomic factors and poor financial returns are discouraging Indonesian soybean production. If the Indonesian Rupiah depreciates further, retail soybean prices will likely increase in 2014. Despite higher prices, soybean consumption is expected to recover in marketing year (MY) 2013/2014.

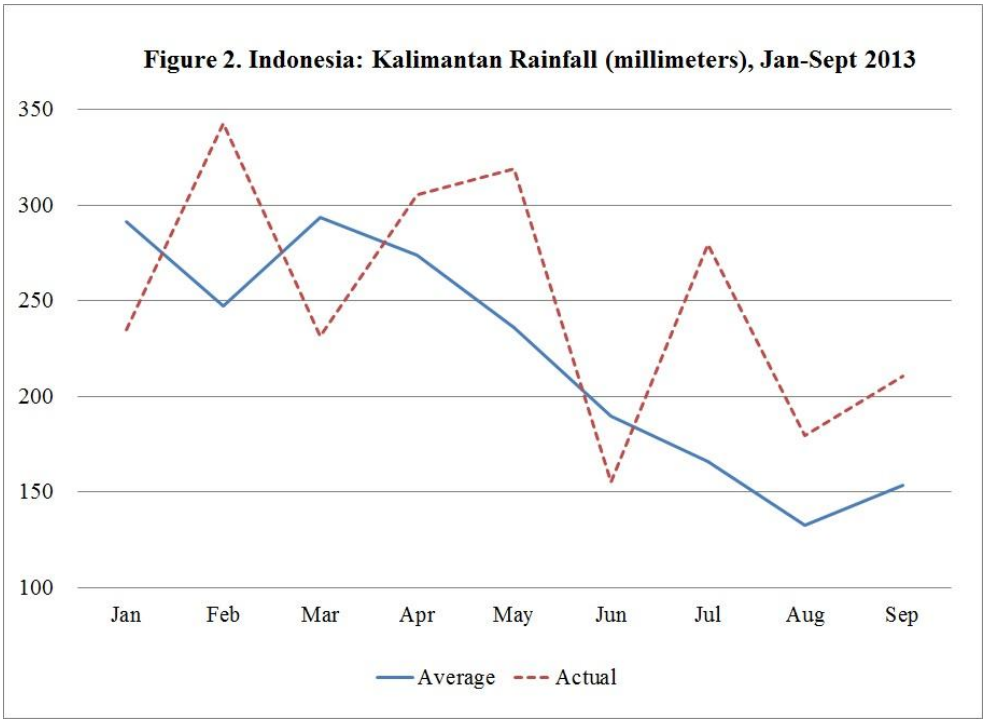
Post:
Jakarta

Oil, Palm

Production
Post estimates for marketing year (MY) 2012/13 Indonesian crude palm oil (CPO) are stable at 28.5 million metric tons (MMT). This contrasts with the Indonesian Palm Oil Association (IPOA), which has lowered its CPO estimates by 8 percent to 26.2 million metric tons (MMT) in 2013. Post maintains that robust growth of harvested area, despite reports of low yields due to weather conditions defavoring insect pollinators, is driving production increases. Increases to harvested area are being driven by CPO's strong export performance and growing domestic consumption. IPOA reports that above average rainfall in Sumatra and Kalimantan, two major palm oil producing islands, inhibited insect pollinator activity (Elaeidobius kamerunicus). Weather data in figure 1 shows that rainfall in Sumatra (65% of annual CPO production) was relatively normal in Jan-Sept 2013. Above normal rainfall was limited to Kalimantan, which accounts for 30 percent of total annual CPO production. The majority of Indonesian oil palm area, therefore, was in good condition.



Source: Indonesian Weather Agency



Source: Indonesian Weather Agency

Palm oil production does not experience immediate declines in the event of strong rainfall. Rainfall regression models suggest that it will take nine months for rainfall to diminish oil palm productivity. Kalimantan's unfavorable rainfall pattern during Jan-September 2013 is therefore not likely to be seen until the fourth quarter of 2013. This analysis is supported by industry specialists, who agree that poor weather in MY 2012/2013 will result production slowdowns during the first half of MY 2013/2014, and likely be followed by stronger production during the second semester.

Consumption

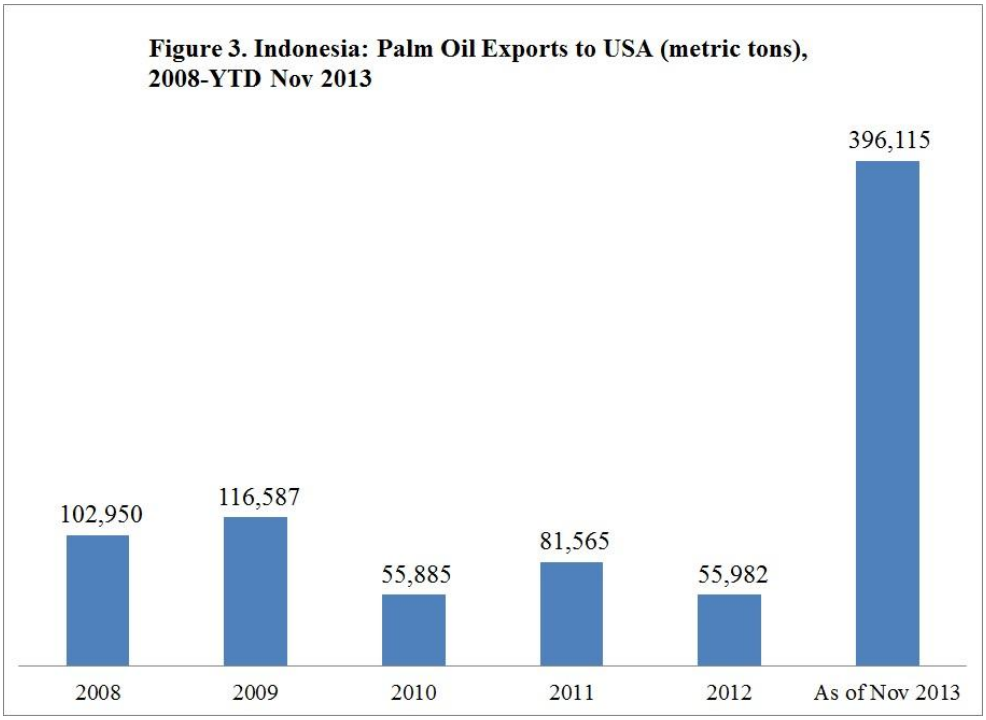
Post maintains Indonesia's domestic palm oil consumption at 7.815 MMT in MY 2012/13. Consumption is expected to remain firm as the biodiesel sector's use of palm oil has not dropped off as was previously expected. Trade and domestic consumption data places Indonesia's biodiesel production at 2.2 billion liters. MY 2013/2014 consumption is revised from 8.5 MMT to 9.29 MMT to factor in policy-led strong growth of biodiesel production. Palm oil use in Indonesia's biodiesel sector accounts for 28 percent of total domestic consumption.

Indonesia's new biofuel policy, implemented September 1, 2013, has helped raise 2013 domestic biodiesel consumption by 300 million liters to 1.07 billion liters. Post expects that the policy will double biodiesel consumption to 2 billion liters in 2014. This contrasts with Government of Indonesia (GOI) estimates, which target an increase to 4 billion liters in 2014 (1.67 billion liters used by transport and 2.33 billion liters for power generation). Post notes that the target for power generation appears unlikely, as the power generation sector has not yet adopted biodiesel, despite GOI programs promoting it since 2006. The transportation sector, however, is a biodiesel consumer, and assuming 1 billion liters of biodiesel and 2 billion liters consumed domestically, Indonesia will produce 3 billion liters of biodiesel in 2014 or 2.95 MMT of CPO equivalents.

Trade

Indonesian palm oil exports reached 20.373 MMT 2012/13, a 10.4 percent increase over the prior year. This slightly exceeded Post's estimate of 20.3 MMT. Surprisingly, U.S. palm oil imports from Indonesia grew from 55,982 MT in 2012 to 396,115 MT in 2013 (2013 data through November). Increased exports of Indonesian palm oil are largely due to palm oil's competitive pricing. Indonesian palm oil prices declined since early 2013 and stabilized at a discount to alternate oils (sunflower, soy, rape, etc), leading to increased shipments to the United States.

Indonesian palm oil exports are expected to register slower growth in MY 2013/14 due to domestic consumption growth driven by the new biofuel policy. 2013/14 growth is projected to reach 21.3 MMT, a 4.55 percent increase over MY 2012/13.



Source: GATS

Stock

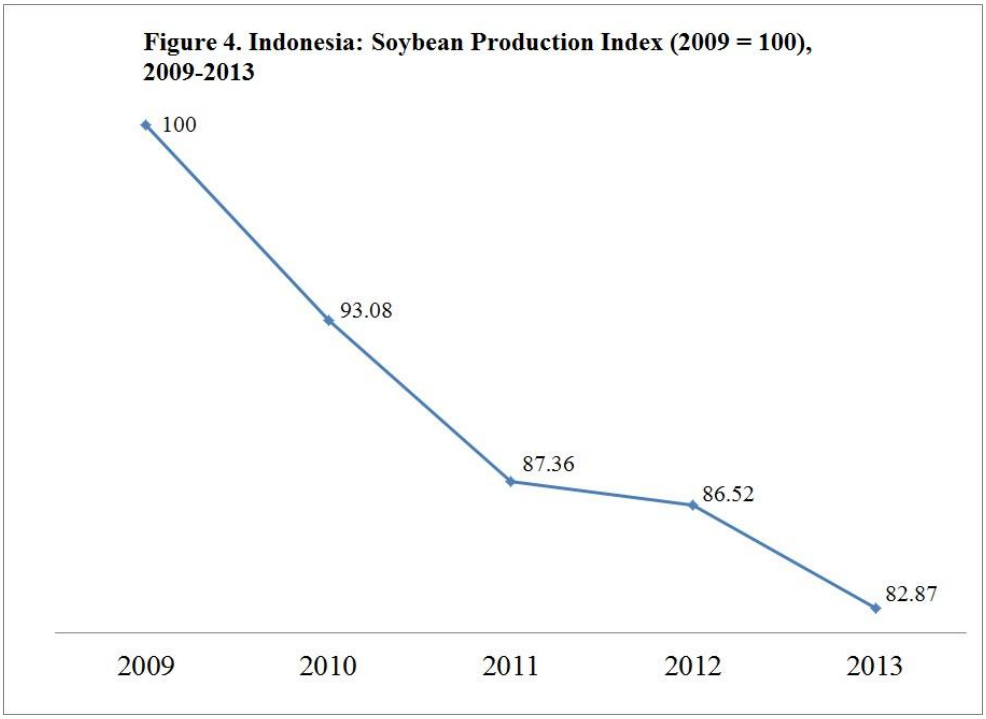
MY 2012/2013 Indonesian palm oil ending stocks stood at 1.758 MMT, four percent below Post's estimate. Ending stocks were revised downward due to higher than expected palm oil export volumes. Looking to 2013/14 ending stocks, Indonesia's new biodiesel policy is also expected to result in a lower ending stock position as domestic consumption grows. Post revises its estimate to 2.17 MMT, 32 percent below the November 2013 estimate (3.23 MMT).

Oil, Palm Indonesia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: Oct 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	9,540	0	9,935	0	10,325
Area Harvested	7,220	7,220	7,685	7,685	8,115	8,115
Trees	0	1,431,000	0	1,490,250	0	1,548,750
Beginning Stocks	825	825	1,445	1,445	1,831	1,758
Production	26,200	26,200	28,500	28,500	31,000	31,000
MY Imports	1	1	1	1	1	1
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from EU	0	0	0	0	0	0
Total Supply	27,026	27,026	29,946	29,946	32,832	32,759
MY Exports	18,452	18,452	20,300	20,373	21,300	21,300
MY Exp. to EU	2,498	2,498	2,285	2,285	2,800	2,800
Industrial Dom. Cons.	2,211	2,211	2,735	2,735	2,975	3,763
Food Use Dom. Cons.	4,702	4,702	4,845	4,845	5,270	5,270
Feed Waste Dom. Cons.	216	216	235	235	256	256
Total Dom. Cons.	7,129	7,129	7,815	7,815	8,501	9,289
Ending Stocks	1,445	1,445	1,831	1,758	3,031	2,170
Total Distribution	27,026	27,026	29,946	29,946	32,832	32,759
1000 HA, 1000 TREES, 1000 MT						

Oilseed, Soybean

Production

Indonesian soybean production fell from 620,000 MT in MY 2011/2012 to 600,000 MT in MY 2012/2013 due to meteorological factors (see ID1355). Poor weather, combined with challenging agronomic factors and poor returns (compared to crops such as corn, tobacco, and mung beans), are discouraging Indonesian soybean production. Consequently, Indonesian soybean production has been on the downtrend in the last five years (*see figure 4*).



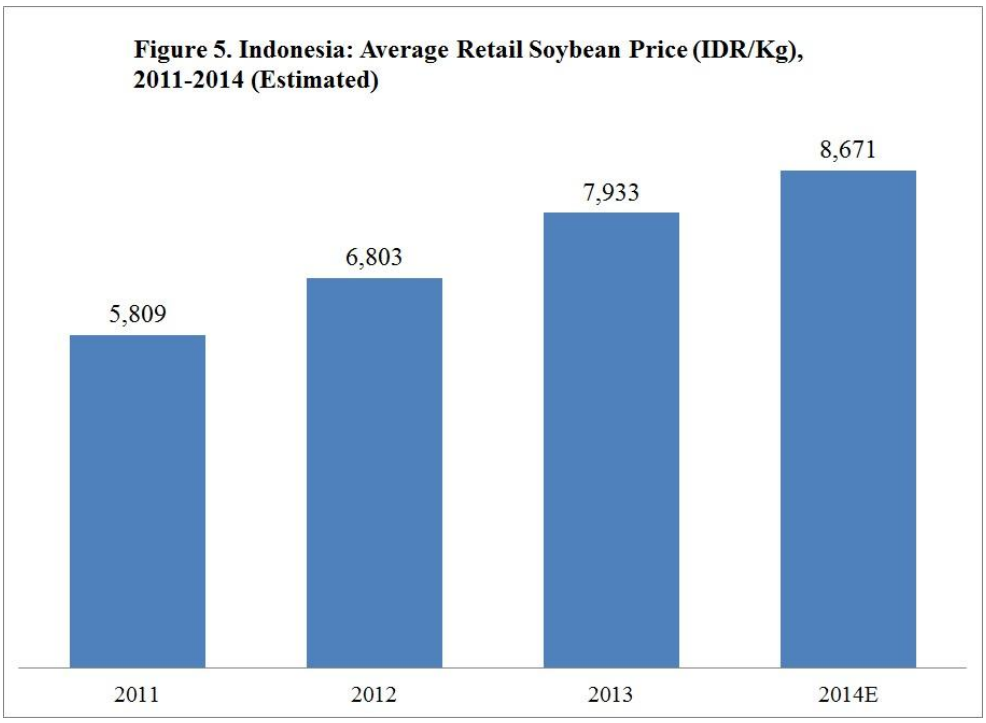
Source: Indonesian Statistical Agency (recalculated)

The GOI is forecasting a soybean production increase due to a government-set farm gate price and depreciation of the rupiah[1] (which has helped run up local soybean prices). Post, however, expects production will only increase to 620,000 MT in MY 2013/2014 due to agronomic factors and incentives to grow alternate crops.

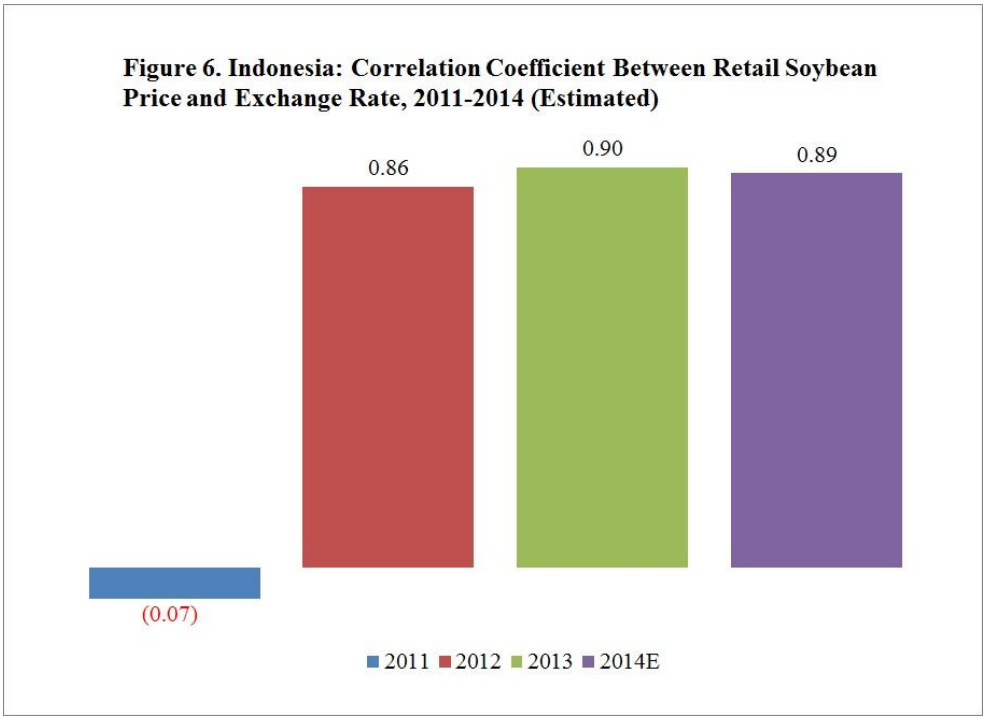
Consumption

The tempeh and tofu industries play a crucial role in Indonesia's soybean consumption, accounting for 90 percent of Indonesia's total domestic soybean consumption. Trade and ending stock data suggest that the recent soybean price hike, in combination with trade-disrupting soybean import regulations have reduced domestic soybean consumption by 5.75 percent to 2.375 MMT in 2012/13. Post's consumption estimate therefor remains unchanged at 2.4 MMT in MY 2012/13.

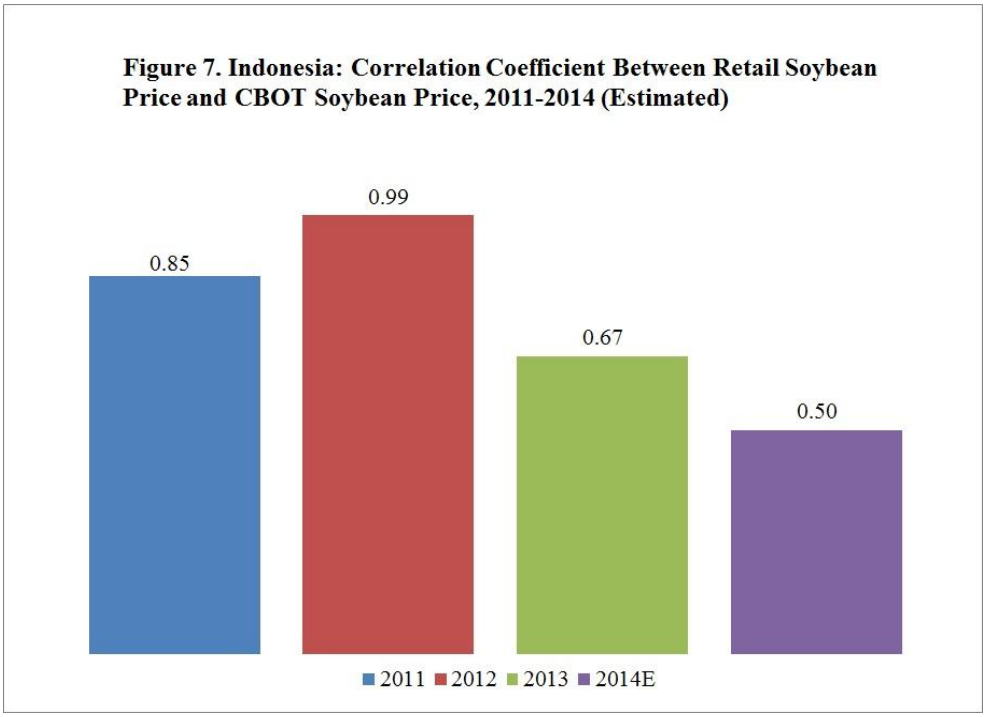
[1]Indonesia imports 75 percent of its total domestic soybean consumption. IDR depreciation has raised the price of imported soybeans in the domestic market, trigger higher local soybean price.



Source: USSEC Indonesia and Fas Jakarta calculation



Source: FAS Jakarta calculation



Source: Fas Jakarta calculation

Primary factors influencing Indonesian soybean prices include Chicago Board of Trade (CBOT) pricing and exchange rate fluctuations (IDR/$US). Post's calculations demonstrate that CBOT pricing triggered a 17 percent price jump in 2012, while the IDR/$US exchange rate played a dominant role in driving up Indonesian prices in 2013. Looking to MY 2013/14, Post anticipates that the exchange rate may drop to as low as IDR 12,500 per dollar. Assuming that U.S. soybeans fluctuate within an average range of US $520 to $560, Indonesian soy prices could go as high as IDR 8,671 per kilogram in 2014. While this may work against increased soybean consumption, Post expects that consumption will recover to levels around 2.5 MMT. This is based on the fact that soybeans form a staple part of the Indonesian diet, and consumption is expected to keep pace with population growth, (which is estimated to continue growing at 1.49 percent annually). Additionally, alternative protein sources, such as meat, eggs, chicken and fish are increasing in price at a faster rate than soy products. Finally, Post believes that the GOI will avoid making policy changes that could disrupt soybean supplies or cause a jump in prices during the current election year.

Trade

Indonesian soybean imports dropped by 6.6 percent in MY 2012/13 to 1.795 MMT due to soybean import regulations which slowed trade significantly during the summer months of 2013. Soybean imports are expected to recover to 1.9 MMT in MY 2013/2014 following the restoration of market-based soybean import regulation and the abovementioned positive factors that may drive up domestic soybean consumption.

Stocks

Both higher import and domestic production will raise ending stock from 40,000 MT in MY 2012/2013 to 54,000 MT in MY 2013/2014.

Oilseed, Soybean Indonesia	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Oct 2011		Market Year Begin: Oct 2012		Market Year Begin: May 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	550	550	550	550	550	550
Area Harvested	450	450	450	450	450	450
Beginning Stocks	68	68	51	51	20	40
Production	620	620	600	600	620	620
MY Imports	1,922	1,922	1,800	1,795	2,000	1,900
MY Imp. from U.S.	1,756	1,756	1,720	1,669	1,900	1,850
MY Imp. from EU	0	0	0	0	0	0
Total Supply	2,610	2,610	2,451	2,446	2,640	2,560
MY Exports	1	1	2	2	1	1
MY Exp. to EU	0	0	0	0	0	0
Crush	0	0	0	0	0	0
Food Use Dom. Cons.	2,512	2,512	2,400	2,375	2,525	2,475
Feed Waste Dom. Cons.	46	46	29	29	29	30
Total Dom. Cons.	2,558	2,558	2,429	2,404	2,554	2,505
Ending Stocks	51	51	20	40	85	54
Total Distribution	2,610	2,610	2,451	2,446	2,640	2,560
1000 HA, 1000 MT						